MULTIMEDIA UNIVERSITY

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FINAL EXAMINATION

TRIMESTER 2, 2022/2023

DFN5214 – FUNDAMENTAL OF FINANCE II

(All sections / Groups)

4TH JULY 2023
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **EIGHT (8)** printed pages (including cover page) with:
   Section A: Twenty (20) multiple choice questions (30%)
   Section B: Three (3) working problems (70%)

2. Answer **ALL** questions. Marks are shown at the end of each question.

3. Please write all your answers in the MCQ test sheet and Answer Booklet provided.

Section A: 20 Multiple Choice Questions (30 marks)

1. The _____ of a firm is the amount of time that elapses from the point when the firm makes an outlay to purchase raw materials to the point when cash is collected from the sale of the finished good.
   a. cash turnover
   b. cash conversion cycle
   c. average age of inventory
   d. average collection period

2. The operating cycle begins when _____ and ends when_____.
   a. inventory is purchased; the supplier of the inventory is paid
   b. inventory is purchased; payment is received for the sale of that inventory
   c. the sale of inventory occurs; payment is received for the sale of that inventory
   d. the sale of inventory occurs; the supplier of the inventory is paid.

3. Appalachian Crafts has sales for the year of RM96,400 and an average inventory of RM17,800. The cost of goods sold is equal to 64 percent of sales and the profit margin is 6 percent. How many days on average does it take the firm to sell an inventory item?
   a. 67.39 days
   b. 72.48 days
   c. 89.46 days
   d. 105.31 days

4. _____ leverage is concerned with the relationship between sales revenue and earnings per share.
   a. Financial
   b. Operating
   c. Variable
   d. Total

5. At a base sales level of RM400,000, a firm has a degree of operating leverage of 2 and a degree of financial leverage of 1.5. The firm's degree of total leverage is _____.
   a. 3.5
   b. 3.0
   c. 0.5
   d. 1.3

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6. _____ costs are a function of time, not sales, and are typically contractual.
   a. Fixed
   b. Semi-variable
   c. Variable
   d. Operating

7. At the operating breakeven point, _____ equals zero.
   a. sales revenue
   b. fixed operating costs
   c. variable operating costs
   d. earnings before interest and taxes

8. The _____ is a significant economic force currently made up of 28 nations with a population of more than 500 million that permits free trade within the countries that make up this group.
   a. North American Free Trade Agreement (NAFTA)
   b. Mercosur Group
   c. Asian Economic Area Network (ASEAN)
   d. European Union (EU)

9. Which one of the following terms is defined as having international operations in a world where relative currency values change?
   a. Political risk
   b. Relative purchasing power parity
   c. Interest rate parity
   d. _Exchange rate risk

10. Suppose you could buy 1,320 South Korea won or 78 Pakistan rupees last year for $1. Today, $1 will buy you 1,318 won or 80 rupees. Which one of the following occurred over the past year?
   a. The dollar appreciated against the won.
   b. The dollar depreciated against the rupee.
   c. The dollar appreciated against both the won and the rupee.
   d. The rupee depreciated against the dollar.

11. The purpose of a stock split is to
   a. affect the firm's capital structure.
   b. decrease the dividend.
   c. enhance the trading activity of the stock by lowering the market price.
   d. increase the market price of the stock

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12. The exchange rate is 1.14 Swiss francs per U.S. dollar. How many U.S. dollars are needed to purchase 2,500 Swiss francs?
    a. $2,021.21
    b. $2,192.98
    c. $2,646.64
    d. $2,850.00

13. Stock repurchases are made for all of the following reasons EXCEPT
    a. to obtain shares to be used in acquisition.
    b. to retire outstanding issues.
    c. to have shares available for stock option plans.
    d. to decrease the book value of equity.

14. Red Mining has 100,000 shares outstanding and just declared a 2-for-1 stock split. Before the announcement, the firm's shares were trading at RM50.00 per share. After the stock dividend, the firm's shares should trade at _____ per share.
    a. RM100.00
    b. RM25.00
    c. RM50.00
    d. none of the above

15. Which one of the following is the need to hold cash simply as a financial reserve?
    a. Precautionary motive
    b. Opportunistic motive
    c. Speculative motive
    d. Transaction motive

16. 3/10 net 45 EOM translates as
    a. a 10 percent cash discount may be taken if paid in three days; if no cash discount is taken, the balance is due in 45 days.
    b. a 3 percent cash discount may be taken if paid in 10 days; if no cash discount is taken, the balance is due 45 days after transaction is complete.
    c. a 3 percent cash discount may be taken if paid in 10 days; if no cash discount is taken, the balance is due 45 days after the end of the month.
    d. a 3 percent discount may be taken on 10 percent of the purchase if the account is paid within 45 days after the end of the month Which one of the following terms refers to the basic factors that are reviewed when evaluating the creditworthiness of a potential customer?

Continued...

17. You purchased an item costing RM5,700 on July 13. The terms of sale were 1/5, net 20. What is the last day you can pay the discounted price?

    a. July 18
    b. July 20
    c. July 28
    d. August 2

18. Which one of the following 5 Cs refers to the general economic climate in a customer's line of business?

    a. Capital
    b. Conditions
    c. Capacity
    d. Character

19. The two major sources of short-term financing are

    a. a line of credit and accounts payable.
    b. accounts payable and accruals.
    c. a line of credit and accruals.
    d. accounts receivable and notes payable

20. A _____ is an agreement between a commercial bank and a business that states the maximum amount of unsecured short-term borrowing the bank will make available to the firm over a given period of time, provided sufficient funds are available.

    a. revolving credit agreement
    b. line of credit
    c. short-term self-liquidating loan
    d. single payment note

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SECTION B (70 Marks)

Question 1

a) Indigo Bhd currently has an inventory turnover of 6.7, a receivables turnover of 9.8, and a payables turnover of 12.4. Compute cash conversion cycle (CCC). **(5 marks)**

b) The Sofa Store sells 3,100 sofas a year at an average price per sofa of RM950. The carrying cost per unit is RM4.20. The company orders 250 sofas at a time and has a fixed order cost of RM48 per order. The sofas are sold out before they are restocked. The lead time is 3 days and therefore Sofa Store keeps 100 units in inventory as safety stock

i. Compute the economic order quantity (EOQ) for Sofa Store. **(5 marks)**

ii. Compute the number of orders per year for Sofa Store. **(3 marks)**

iii. Explain the use of economic order quantity (EOQ) model. **(6 marks)**

c) California Prunes offers credit terms of 2/5, net 25. What is the effective annual rate on a RM8,000 purchase of prunes if you forgo the discount? **(6 marks)**

(TOTAL: 25 MARKS)

Question 2

An analyst has collected the following information regarding GreenLime Company:

- The company's capital structure is 70 percent equity and 30 percent debt.
- The yield to maturity on the company's bonds before tax is 9 percent.
- The company's year-end dividend is forecasted to be RM0.80 a share.
- The company expects that its dividend will grow at a constant rate of 9 percent a year.
- The company's stock price is RM25.
- The company's tax rate is 40 percent.
- The company anticipates that it will need to raise new common stock this year, and total flotation costs will equal 10 percent of the amount issued.

Assume the company accounts for flotation costs by adjusting the cost of capital. Given this information, compute:

Continued...

a) the firm's after-tax cost of debt. **(5 marks)**

b) the firm's cost of common stock. **(5 marks)**

c) the firm's weighted average cost of capital (WACC). **(5 marks)**

d) Explain the advantages of raising funds through combination of various sources of financing instead of using just one source of financing. **(5 marks)**

(TOTAL: 20 MARKS)

Question 3

a) Gallop Horse Riding Club has a capacity to stable 45 horses. The fee for stabling a horse is RM150 per month. Maintenance, depreciation, and other fixed operating expenses total RM1500 per month. Variable operating costs per horse are RM15 per month for hay and bedding and RM10 per month for grain.

i. Calculate the operating break-even point (in horses stabled).
(5 marks)

ii. Compute the monthly operating profit if an average of 35 horses are stabled,
(5 marks)

b) If a company sells 20,000 units at RM20 each, has fixed costs of RM50,000 and a variable cost of RM10 per unit, what is their degree of operating leverage (DOL)?
(5 marks)

c) Lavendar Berhad currently has 350,000 shares of stock outstanding that sell for RM120 per share. The company decides on a four for one stock split. Assuming no market imperfections or tax effects exist, compute the share price after the stock split. **(4 marks)**

d) Explain two (2) differences between stock dividends and stock split.
(6 marks)
(TOTAL: 25 MARKS)

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DFN5214 FUNDAMENTAL OF FINANCE
Selected Formulae

1. $NPV = \sum_{t=0}^{n} \frac{CF_t}{(1+r)^t} - \text{Co}$

2. $\text{E (R)} = \sum_{i=1}^{n} r_i \, P_i$

3. $\sigma^2 = \sum_{j=1}^{n} \left(r_j - \bar{r}\right)^2 \times P_{r_j}$

4. $WACC = (w_i \, r_i) + \left(w_p \, r_p\right) + (w_s \, r_s)$

5. $r_d = \frac{I + \frac{\$1000 - N_d}{n}}{\frac{N_d + \$1000}{2}}$

6. $r_{d \text{ after tax}} = r_d \, (1\text{-T})$

7. $r_s = R_F + [b \times (r_m - R_F)]$

8. $OC = AAI + ACP$

9. $CCC = OC - APP$

10. $EOQ = \sqrt{\frac{2 \, X \, S \, X \, O}{C}}$

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